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RUEHLMC/MILLENNIUM CHALLENGE CORP WASHDC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
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UNCLAS SECTION 01 OF 03 MANAGUA 002003

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STATE FOR WHA/CEN, WHA/EPSC, AND EEB
TREASURY FOR SARA GRAY
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3134/ITA/USFCS/OIO/WH/MKESHISHIAN/BARTHUR

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SUBJECT: BRAZIL AND NICARAGUA: I SAY ETHANOL, YOU SAY HYDRO

REF: A) MANAGUA 1978, B) MANAGUA 1944, C) MANAGUA 1783

11. (SBU) Summary: President Luiz Ignacio "Lula" da Silva's August 7-8 visit to Nicaragua was the first by a Brazilian head of state in over 100 years. While Lula's focus for the visit was ethanol and business opportunities that take advantage of CAFTA, Ortega tried to interest the Brazilians in projects in agriculture, electricity generation, and tourism. Although Lula tried valiantly to convince Ortega of the benefits of ethanol, Ortega showed little interest. Instead, Ortega tried to shift the focus of Lula's visit toward the same portfolio of hydroelectric, geothermal, and infrastructure projects he has been peddling to the Iranians and others (Ref A). Bilateral talks also included Brazilian technical assistance to Nicaragua's Hambre Cero program, a possible debt for development swap, and support for Nicaragua's Peace and Reconciliation Commission. Lula's visit made clear that while rhetorically Ortega, Lula, and Chavez appear to be at least in the same populist ballpark, in reality, the opportunities that the Brazilians seek in Nicaragua would require that Ortega step back from Chavez and ALBA, a move Ortega seems unwilling to make. End Summary.

Second Visit in a Week

12. (U) Nicaraguan authorities characterized Brazilian President Luiz Ignacio "Lula" da Silva's August 7-8 visit to Nicaragua as a "historic event," a precursor to an increase in bilateral cooperation and investment. The visit marked the first visit by a Brazilian head of state in more than 100 years, although Lula visited Managua as a union leader in 1980 to celebrate the first anniversary of the Sandinista revolution. During this visit, a few days after a technical delegation from Iran toured Nicaragua (Ref A), Lula stated that he had maintained a close relationship with Ortega throughout the 1990s and that he was delighted that the FSLN leader had returned to power. Brazilian officials declared they wanted to establish a relationship of "permanent cooperation" and "integration" with Nicaragua, particularly in the areas of agriculture, reforestation, fisheries, health, and education. The two leaders signed twelve cooperation agreements covering agriculture, forestry, education, foreign relations, tourism, health, trade, investment and energy.

13. (U) Lula traveled to Nicaragua from Honduras, the second stop on his Latin American tour that included Mexico, Jamaica, and Panama. He was accompanied by his Minister of Foreign Relations Celso Amorim; Minister of Development, Industry, and Foreign Commerce

Miguel Jorge; Special Secretary of Aquaculture and Fisheries Altemir Gregolin; and a delegation of 50 businessmen, who participated in a trade and investment forum in Managua geared toward creating investments in infrastructure, energy (mostly biofuels), and agro-industry.

Biofuels - Is Ethanol an Option?

¶4. (U) One of the first areas for cooperation discussed was biofuels, primarily ethanol, as a potential way to solve Nicaragua's energy crisis. Brazilian Marcos Saways Yank, President of the Sugar Agro-Industry Union of Sao Paulo, tried to convince GON officials and private sector representatives of the merits of ethanol production. In an editorial published during the visit, Lula stated that he considers Nicaragua to be "a strong candidate to lead a pioneer initiative in Central America" in ethanol development.

¶5. (U) President Ortega, however, has been vocal about the danger of Nicaragua becoming dependent on ethanol production. He has stated several times that reliance on ethanol will put Nicaragua on "the dangerous path to monoculture." Outside of criticizing the United States' corn-based biofuel program, Ortega showed little interest in the subject throughout Lula's visit. When pressed, Ortega stated that ethanol from African palm was acceptable, but avoided making any direct comments on sugar-based ethanol. He added that he would leave the issue of biofuels to the private sector. Later, Nicaraguan Minister of Energy and Mines Emilio Rappaccioli said that while the production of ethanol was justified for other countries, Nicaragua would prefer to use its farmland for the cultivation of food products such as basic grains.

Electricity Instead of Biofuels

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¶6. (U) In an effort to shift the focus of Lula's visit from ethanol and biofuels, the GON presented several hydroelectric and geothermal projects to the Brazilians, the same ones they hawked to the Iranian delegation a week earlier (Ref A). Nicaraguan ENEL Director Ernesto Martinez Tiffer added two additional projects, which could generate up to 120 megawatts of electricity for an investment of USD 250 million. In the end, Lula agreed to look into financing hydroelectric and geothermal projects, but only after he lauded the potential for biofuels, based on soy, sunflowers, and Africa palm, as viable alternatives for Nicaragua.

Infrastructure and Agro-Industry

¶7. (U) As they had done with the Iranian delegation, the Nicaraguans flooded the Brazilians with infrastructure project proposals. The President's advisors presented proposals to improve the ports and airports on Nicaragua's Atlantic coast to increase tourism. The Nicaraguan Port Authority requested USD 9 million to dredge 42 kms of the San Juan River. Agriculture and Forestry Minister Ariel Bucardo wanted to work with the Brazilians on importing equipment for Nicaragua's coffee and beef sectors. Lula promised to ask Brazilian bus manufacturers to sell their buses to Nicaraguans at discounted prices.

The Private Sector had specific objectives

¶8. (U) While Ortega used the visit as an opportunity to criticize CAFTA and praise ALBA as "free trade versus fair trade," it was clear that the Brazilian business representatives who accompanied Lula view Nicaragua as a platform from which they could export to the United States, taking advantage of CAFTA. At the Nicaragua-Brazil trade fair, the main areas of interest were infrastructure, energy, textiles and ethanol. Nicaragua's largest sugar producer (and only ethanol producer) agreed to explore dehydrating Brazilian ethanol here for export to the U.S. under CAFTA terms.

Food Assistance

¶9. (U) The GOB team paid particular attention to Nicaragua's "Hambre Cero" program--a food security initiative loosely based on Brazil's

"Fome Zero" (Ref C). Brazilian officials offered technical and scientific cooperation to Nicaragua to improve the program's effectiveness. Currently, Hambre Cero is focused exclusively on distributing farm animals and seed to pre-selected families throughout Nicaragua. In contrast, Fome Zero involves a variety of different initiatives, ranging from direct and conditional cash transfers to the poorest families ("Bolsa Familia"), distributing vitamins and iron supplements, and micro-credit. Brazilian officials expressed support for the GON's plan to hand control of the Hambre Cero program to the controversial FSLN-controlled Citizen Power Councils (Ref B), as Brazil's program is run through a similar system of councils controlled by Lula's Workers' Party.

Debt for Social Development Swap

¶10. (U) The most unexpected request to the GOB was Ortega's proposal to swap Nicaragua's debt with Brazil (USD 5.9 million) with projects in the social and development sectors. Given that this was the first mention of such an idea, no specifics on the exact nature of the swap or the social programs were unveiled. In his editorial during this visit, Lula argued that Brazil's forgiveness of Nicaragua's bilateral debt should be seen as "an expression of solidarity and also as a credit of confidence." (Note: Under the terms of the HIPC program, Nicaragua does not service any of its pre-HIPC foreign debt. End Note.)

Helping Peace and Reconciliation

¶11. (U) President Lula also met with retired cardinal Miguel Obando y Bravo, who now heads up the GON's Commission of Verification, Peace, Reconciliation and Justice. Lula promised technical assistance to the Commission which seeks to resolve the demands of 150,000 ex-combatants. Lula promised he would send a delegation headed by the Brazilian Minister of Agriculture and a team of Brazilian labor leaders to Nicaragua to discuss possible areas of cooperation. Lula also committed to make contacts with other world leaders to gather resources for the Commission.

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Common Positions on Foreign Affairs

¶12. (U) The final joint communique spelled out several common positions on foreign affairs:

-- Both countries "manifested their will and firm commitment to fight transnational organized crime."

-- Both "reaffirmed that terrorism, in all its forms and manifestations, has no justification."

-- Both presidents "Expressed their feelings of solidarity with the Government and fraternal people of Cuba."

-- Both presidents emphasized the dialogue and negotiations, according to the principles of the UN Charter, are the basis for finding peace in the Middle East, Iraq and Afghanistan.

Comment

¶13. (SBU) Lula's visit demonstrated that while rhetorically Ortega, Lula, and Chavez may be in the same populist ballpark, in reality, the Brazilians are positioned away from Chavez and ALBA. In many ways, Lula presented Ortega with an alternative leftist approach to populist, Chavista policies. For Brazil, sugar-based ethanol, not oil, is the wave of the future. Brazilian investors are attracted to Nicaragua because of CAFTA, as opposed to wanting to compete with CAFTA. The concrete, business focused nature of Lula's visit stands in clear contrast to the promises made by Chavez and Ahmadinejad. Ortega came across as not particularly interested in what Lula had to offer, as it often challenged the basis of his alliance with Chavez and all things ALBA.

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